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SUBJECT: ELECTRICITY IN KURDISTAN REGION: AMBITIOUS PLANS, MANY PROBLEMS.

This is a Kurdistan Regional Reconstruction Team (RRT) cable.

¶1. (SBU) SUMMARY: In an August 9 meeting with RRT Officers, Kurdistan Regional Government (KRG) Minister of Electricity Hoshyar Siwaily provided a candid overview of the electricity sector in the three provinces of the Kurdistan Region. Consumers here currently receive on average eight hours of power per day from the grid with demand increasing 15 percent per year, businesses receive 24 hours. New gas-fired power plants under construction will help meet rising demand and consumer expectations for more electricity per day. In the long term, however, the ministry must tap the region's potential for hydro power. Doing so will require significant planning and capital, some of which will have to come from raising prices. The minister also rejected allegations that the KRG had been withholding power from the national grid. The region lacks the controls center to do that and, even with the power from its two current hydro plants during the summer takes power from the grid. END SUMMARY.

KRG: A Net Consumer from the Grid

¶2. (U) Only the provinces of Erbil and Sulaymaniah depend on the Iraqi national power grid. Dohuk receives its power from Turkey but it is very expensive (\$.033/kwh). Currently two power plants operate in the KRG; both are hydroelectric power plants at Lake Dukan and Lake Derbandikan, both in Sulaymaniah Province. These plants together are capable of generating approximately 300-400 MW during the summer months when conditions permit, i.e. sufficient rain during the winter months. This hydro power is transmitted through Iraq's national grid but most is distributed back to the provinces of Erbil and Sulaymaniah.

¶3. (SBU) The minister emphasized that the region remains a net recipient of approximately 200 MW from the national grid, which is sufficient to provide approximately 8 hours of electricity to residents in Erbil and Sulaymaniah. This amount of electricity drops significantly during the winter months when the two hydroelectric dams are storing rain water for the next agricultural growing season.

¶4. (SBU) As a net recipient of power from the grid, the minister complained about allegations contained in the August 5 Associated Press report that the KRG was withholding power. In fact, he claimed that the national grid was providing 150 MW instead of the usual 200 MW during the month of August. He also noted that, even if the KRG wanted to remove itself from the grid, it lacked the independent control and distribution system to do so. All the power for the two provinces was linked to the control center in Kirkuk.

Plans for New Plants

¶ 15. (SBU) Meeting rising demand and increasing the amount of power to the consumers is the Ministry's first priority. "We've got to show the people something," he commented. The Ministry has two new gas-powered generation plans in an advanced stage of construction: the Pir Daud 500 MW plant in Erbil and the Taq-Taq 750 MW plant in Sulaymaniah. Both are being constructed under BOO (buy, own, operate) contracts between the KRG and a local investor, Ahmed Ismail, through his company MAS-Jordan. The KRG will be obligated to buy the power generated by these stations for \$0.028 / kwh for Pir Daud and \$0.029/ kwh for Tag-Taq [note kwh = kilowatts per hour]. The long-term economics of the deal are unknown since the capital requirements appear to be higher than the income potential.

¶ 16. (SBU) The first half of the Erbil power plant is expected to be completed in early 2008 and will be able to generate 250 MW. The Sulaymaniah Taq-Taq plant is scheduled to bring 250 MW online by July 2008. Both power plants will be dependent upon the availability of natural gas. The KRG signed a deal with the Dubai based DANA to build a gas pipeline from the gas fields at Chamchamal to both plants. Construction is underway and is scheduled for completion in March 2008. In order not to delay the opening of the Pir Daud plant in early 2008, the KRG is stockpiling diesel fuel to run the plant temporarily until the gas pipeline is finished. When the first stages of both power plants are completed next summer, the Ministry of Electricity estimates that the power generated will be sufficient to provide residents of Erbil and Sulaymaniah Provinces with 16 hours of electricity per day year-round.

¶ 17. (SBU) The minister acknowledged that the central government is opposed to the DANA gas deal but noted that the Chamchamal gas fields were within KRG territory, the gas was not being sold, and that power generated by the plants would contribute to the national distribution system. He also noted a lack of coordination between the gas pipeline project and the construction of the two plants. If

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the pipeline is not completed before the summer, he will have two plants with nothing to fire them.

¶ 18. (SBU) The Ministry has also signed a deal with a U.S. registered company JACO for construction of a heavy-fuel powered 260 MW plant in Dohuk. Preliminary site-grading and construction is now underway after a delay caused by the company's failure deposit the \$3 million performance guaranty required by the contract. Officials in Dokuk said August 22 that they expect this plant to be ready to generate 100 MW by Spring 2008. The ECD is dependent on the signing of the contract and dates for mobilization.

Tariff increases, Long-term planning

¶ 19. (SBU) The Minister clearly recognizes that delivering more electricity to KRG citizens is a long-term and expensive process. His ministry is hampered by extremely low tariff rates which greatly limit their ability to raise capital to upgrade, maintain, and expand the electrical generation, transmission, and distribution system within the KRG. The Ministry has submitted a request to the KRG Council of Ministers for an immediate tariff increase in 2007 and annual increases until 2010. If the immediate increase is approved, the cost for KRG residents will rise from \$0.004 to \$0.01 per kwh. The increase will not generate much revenue, but will, the minister hopes, introduce consumers to the idea of paying the government for electricity. Right now consumers pay significantly more to private generators operators but balk at paying for government power, business customers pay slightly more. The Minister noted that substantial further increases will be needed to cover the true costs of electricity generated by Pir Daud and Taq-Taq. Since management, transmission, and distribution costs must also be factored into the tariff, he expects that the KRG will have to eventually charge \$0.05 or \$0.06 per kwh. This price will still be significantly cheaper than residents currently pay to small, neighborhood, privately operated, diesel-powered generator enterprises.

¶ 10. (SBU) According to the minister, what is really lacking now is

long-term planning. The KRG Ministry of Electricity is a brand-new ministry, cobbled together from parts of the Ministry of Industry and unified under a single minister only one year ago. The challenges facing this ministry are further hampered by a lack trained staff and an inability to undertake the analyses critically needed to forecast growth of consumer demand, plan strategically, and justify tariff increases. The future lay in tapping the region's hydro-electrical potential, but to date, no feasibility studies have been completed. It will be years before such long-term, capital intensive projects come on line.

U.S. Assistance

¶11. (U) Technical Reinforcements: The ministry is currently receiving technical assistance from USAID through the provision of a single long-term expatriate advisor. However this advisor has been given the herculean task of developing a comprehensive Electricity Master Plan for the KRG covering planning, generation, transmission, least-cost generation, and tariff reform/restructuring. Given the immediate needs of the ministry to raise tariffs and negotiate additional contracts to increase the supply of electricity in the KRG, the Minister requested that USAID assign additional experts in order to complete this mammoth and complex study in a timely fashion. USAID had responded by hiring another electricity utility expert for six months.

¶12. (U) Training Center: There are currently five training centers in Iraq that are used to train Central Ministry and provincial employees of the Ministry of Electricity. These centers are located in Basra, Najaf, Basil, and two in Baghdad. The KRG Ministry no longer has access to these centers for its staff and is requesting US help with the establishment of a training center for the KRG. This will train employees on the operation and maintenance of the systems used in their areas, as well as on administrative and management skills.

¶13. (SBU) Control Center: The Minister also requested US help with the construction of a \$3 million control center for the KRG. Currently, all electrical generation is controlled by an existing center in Kirkuk. The minister would like to have a center which would be linked to the SCADA (system control and data acquisition) systems for the new Pir Daud and Taq-Taq plants. This will allow the KRG ministry to monitor electrical generation and distribution in real time and make operational adjustments in their system to distribute power more efficiently and effectively. Comment: This concept is not recommended by the electrical experts in ITAO. The

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National Dispatch Center and the North, South, Center Regional centers report to the National Dispatch Center. He asserted that the GoI Ministry of Electricity supports this idea. Some might see such a center as a means for the KRG to move off the national grid. End Comment.

¶14. (SBU) Feasibility studies: The water flowing in Kurdistan's mountains may be the region's future for electrical power, but the ministry has not a single feasibility study to show potential investors or donors. He asked whether the USG could help by studying two or three potential sites to jump start the process.

¶15. (SBU) Comment: Minister Siwaily conveyed a sense of technical competence and political realism in facing the enormous task of scrambling to meet current demand and planning for the future with limited resources at his disposal. RRT and USAID will be looking at his requests within our programs and resource during the coming weeks, but have already moved to bring in additional technical assistance.

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